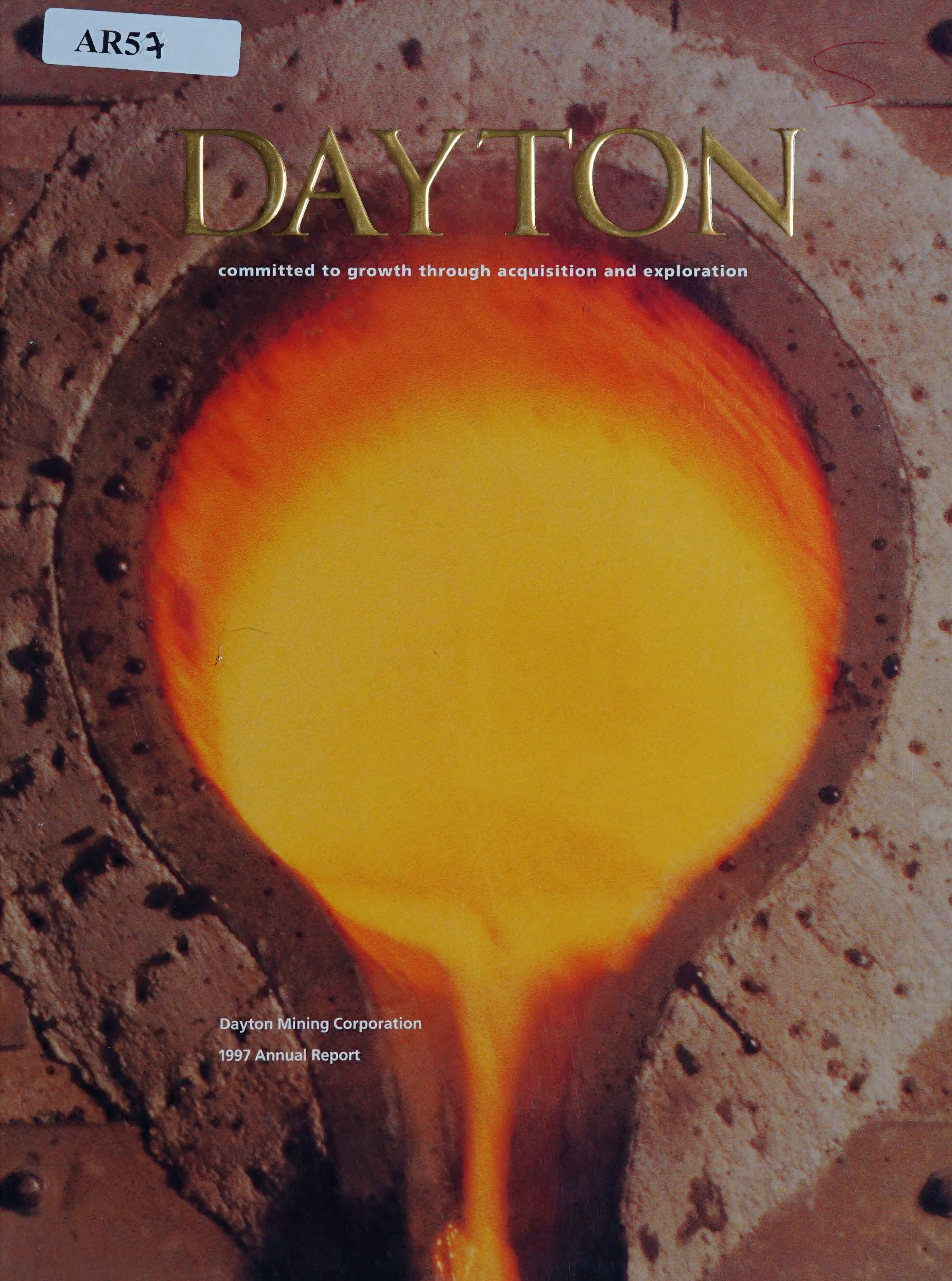


DAYTON

committed to growth through acquisition and exploration

Dayton Mining Corporation

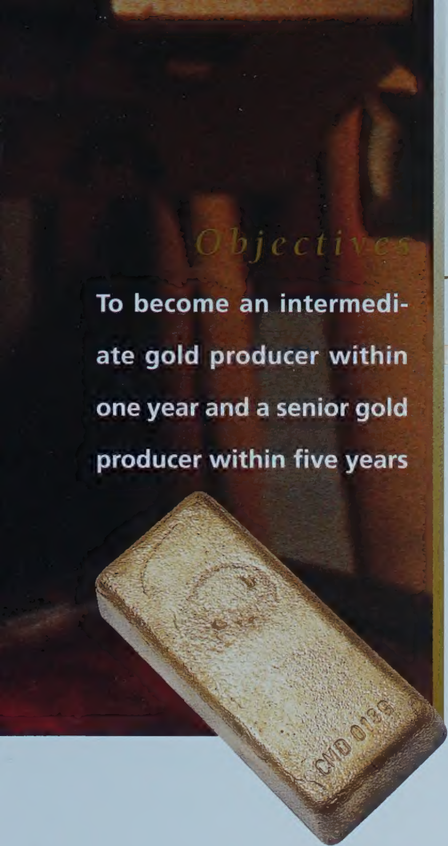
1997 Annual Report

contents

Cover and this page:

Gold pour at Dayton's 100% owned Andacollo Gold Mine

2 #45



Objectives

To become an intermediate gold producer within one year and a senior gold producer within five years

The Company

Dayton Mining Corporation is a Canadian-based international mining company engaged in the worldwide exploration, development, and operation of precious metals properties. The Company's principal asset is its 100% owned and operated Andacollo Gold Mine located in central Chile. Andacollo is an 18,200 tonne (20,000 ton) per day, open-pit, heap-leach operation. Since beginning commercial production in January 1996 the Andacollo mine has produced over 200,000 ounces of gold. During 1997 Dayton expanded production by 25% to 18,200 tonnes (20,000 tons) per day through the addition of a third tertiary crusher and doubled the process plant capacity by adding a second set of carbon columns.

Current mine production at Andacollo is from three deposits — Tres Perlas, Tres Perlas West and Socorro. Plans are currently underway to begin production from the Churrumata deposit, thereby giving Dayton four sources of ore at the Andacollo operation.

Year end 1997 mineable reserves are 1.3 million ounces of gold contained in a resource of 2.9 million ounces of gold. The reserve and resource estimates were audited by Mine Reserve Associates of Denver, Colorado. The exploration program at Andacollo has been extremely successful over the past few years and Dayton plans to continue with its aggressive exploration effort on the Andacollo property by drilling over 15,000 meters in 1998.

Dayton currently has approximately $70 million in cash and project debt of $40 million (as at March 1998). Andacollo production is hedged for 1998 and 1999 with a total of 21,000 ounces of puts at US$380 and 136,000 ounces of puts at US$340.

Dayton Mining Corporation is listed on the American Stock Exchange and the Toronto Stock Exchange under the trading symbol **DAY**. *Dayton is also listed on the TSE 200 and TSE 300 Indexes. Current shares outstanding are 40.8 million.*

All figures in Canadian dollars unless otherwise indicated.

1997 **Chairman's Report**

The year 1997 was one of expansion at Dayton's 100% owned Andacollo Gold Mine in Chile. Modifications were made to the primary crusher, a third tertiary crusher was constructed, and the process plant's capacity was nearly doubled. Dayton also completed a US$69 million convertible debenture issue to place the Company on a solid financial footing.

As the new Chairman and CEO of Dayton Mining Corporation I am pleased to review the Company's activities and operations in 1997 and share our goals and objectives for the future of Dayton.

OPERATIONS

The Andacollo Gold Mine completed its second year of commercial production in 1997 producing 91,347 ounces of gold at cash operating costs of US$251 per ounce, results which were unsatisfactory to management. The lower production and higher cash costs than budgeted resulted mainly from delays in accessing the higher grade Socorro deposit. In order to maintain crusher throughput of 14,500 tonnes (16,000 tons) per day, more ore was sourced from the lower grade Tres Perlas West deposit.

During the first quarter of 1997 Bechtel Corporation made modifications to the primary crusher which allowed the mine to achieve consistent production throughput levels. During the second half of 1997, the Andacollo mine underwent a $9 million expansion of the crushing circuit by adding a third tertiary crusher. This additional crusher increased throughput by 25% to 18,200 tonnes (20,000 tons) per day. Additional modifications were made to the process plant, doubling the number of carbon tanks and increasing the solution rate to 5,200 gallons per minute.

Management's objective is to increase production to 170,000 ounces by 1999 at Andacollo at a cash cost of less than US$190 per ounce.

EXPLORATION

During 1997 Dayton completed 30,727 meters of drilling at the Andacollo property. As a result of this work, the mineable reserves were largely maintained, despite the use of lower gold prices and recovery factors than were used in 1996 and the mining of approximately 149,500 ounces of gold during the year. The additional reserves were developed at Churrumata and Floridor, a new discovery in 1997. Included in this year's drilling were five holes drilled to depths in excess of 500 meters. Through this drilling an encouraging exploration target was identified below the Tres Perlas West pit that will be further explored in 1998.

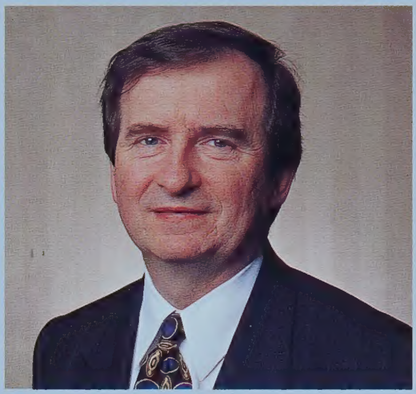
Proven and probable reserves at Andacollo now stand at 45.5 million tonnes grading 0.87 grams per tonne for 1.3 million ounces of gold. These reserves are contained in a total resource of 133 million tonnes. All reserves were audited by Mine Reserve Associates of Denver, Colorado.

FINANCIAL

Revenues for 1997 were $50 million with cash flow from operations of $10.5 million. Using a gold price of US$340 per ounce, Dayton has reviewed the carrying value of its mining assets and written these assets down by $24 million in 1997. Marketable securities were also written down by $1.0 million in 1997. The Company had a net loss of $27.6 million in 1997.

During 1997 Dayton realized an average gold price of US$402 per ounce due to its gold hedging program. Dayton's current hedge position for 1998 and 1999 consists of 21,000 ounces of puts at US$380 per ounce and 136,000 ounces of puts at US$340 per ounce.

Following completion of a $95 million convertible debenture financing in 1997, and paying down the Andacollo project debt to $40 million in early 1998, Dayton now has $70 million (at March 1998) of cash available for acquisitions and to meet its commitments.



Roland L. Horst
Chairman and Chief Executive Officer

MANAGEMENT

In February of 1998, Minorca Resources, Inc. purchased 12.2% of Dayton from Wayne McClay who sold his shares for personal reasons. Mr. McClay resigned from Dayton as Chairman, President and CEO and from the Board of Directors. On behalf of the shareholders and management of Dayton, I would like to thank Wayne for his contribution in creating and building Dayton.

The transition has been very smooth and the new management of Dayton is as follows: Roland Horst has become Chairman and Chief Executive Officer; Rex Outzen is now President and Chief Operating Officer; Don MacDonald continues as Senior Vice President of Finance and Chief Financial Officer; Ritch Hall continues as Senior Vice President, Corporate Development and Exploration; and Diane Thomas has become Vice President, Corporate Development while maintaining the position of Vice President, Investor Relations. Fred Earnest joins Dayton in April of 1998 as General Manager of the Andacollo Gold Mine.

STRATEGIC DIRECTION

The objectives we have set for Dayton are to become an intermediate gold producer within one year and a senior gold producer within five years. With a skilled management team, Dayton will achieve this objective by aggressively pursuing growth through acquisition and exploration. Three criteria have been put in place when evaluating acquisition opportunities: projects with costs in the lowest third in the industry, a minimum of 500,000 ounces in reserves, and a minimum annual production of 75,000 ounces of gold. While looking for new opportunities Dayton will continue to optimize and expand production at Andacollo by increasing reserves and resources and focusing on lowering cash operating costs. With a dedicated management team focused on growth, a strong treasury and assured cash flow, Dayton is well positioned to increase shareholder value.

Roland L. Horst
Chairman and
Chief Executive Officer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Pacific Ocean
Airport
La Serena
Coquimbo
Chile
Andacollo
north
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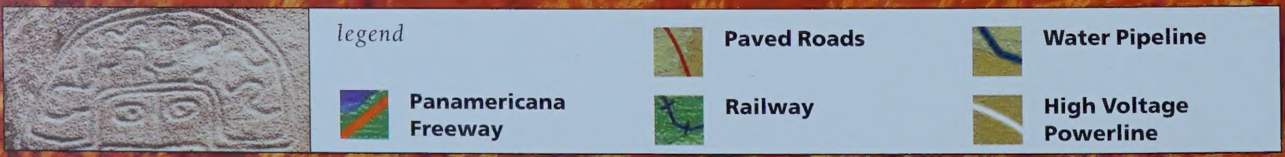
2
KILOMETERS


legend
Paved Roads
Water Pipeline
Panamericana Freeway
Railway
High Voltage Powerline

Dayton's 100% owned Andacollo Gold Mine is located in central Chile near the coastal city of La Serena, approximately 500 kilometers north of Chile's capital city of Santiago. Unlike most mining operations in Chile, the Andacollo Mine is situated at a low elevation of 1,000 meters with a warm and arid climate very conducive to heap leach operations.

Construction of the state-of-the-art processing facilities at Andacollo was completed in late 1995. Commercial operations commenced in January 1996 and the third full year of operation will be realized in 1998.

Rex L. Outzen
President and Chief Operating Officer

The operation uses open pit mining, three stage crushing, an overland conveyor transportation system, mobile ore stacking, conventional heap leaching, carbon adsorption, electrowinning and induction refining to produce 500 ounce dore bars grading approximately 84% gold and 15% silver. The mine and process plant were designed to treat 12,700 tonnes (14,000 tons) per day or approximately 4.5 million tonnes (5.0 million tons) per year. Design of the process facilities also included a provision to include a third tertiary crusher circuit, which has recently been completed, so that production could be easily expanded to 18,200 tonnes (20,000 tons) per day or approximately 6.4 million tonnes (7.0 million tons) per year.

1997 PRODUCTION

In 1997 the Andacollo Mine produced 5.1 million tonnes of ore and 10.5 million tonnes of waste for a total material movement in the mine of 15.6 million tonnes which was a 51% increase over the 10.3 million tonnes of material mined in 1996.

Production from the mine during the year came from three deposits: Tres Perlas, Tres Perlas West and Socorro. Development of the higher grade Socorro deposit was initiated during the first half of the year but was delayed due to difficulties with initial access, road construction and mining in and around old underground workings. As a result of these delays, more ore was sourced from the lower grade Tres Perlas West deposit. Due to this, the ore grade during 1997 averaged 0.89 grams/tonne (0.026 oz/ton) or 15% less than the 1.05 grams/tonne (0.031 oz/ton) average grade mined in 1996. These lower grade ores resulted in fewer ounces being produced and consequent higher cash operating costs per ounce than were planned for 1997.

The impact of the lower grade ores were offset slightly by increased crusher throughput to 4.8 million tonnes (5.3 million tons) in 1997 or 10% more than the 4.4 million tonnes (4.8 million tons) crushed in 1996. As a result, gold production totalled 91,347 ounces in 1997 or 4% higher than the 87,650 ounces produced in 1996. Cash operating costs were consistent with the budget on a dollar per ton basis. However, with fewer ounces being produced, the cash cost per ounce in 1997 was US$251 compared with US$205 in 1996.

Ore Mined	5,082,000 tonnes
Ore Crushed	4,807,000 tonnes
Grade	0.89 g/t
Gold Produced	91,347 ounces
Mining Cost	$2.26 per tonne
Process Cost	$2.31 per tonne
Administration Cost	$0.52 per tonne
Cash Cost	$251 per ounce

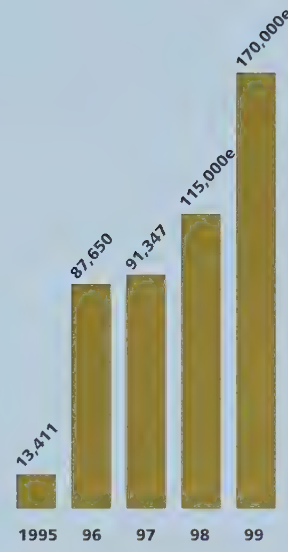
amounts in US Dollars

CURRENT & FUTURE DEVELOPMENTS

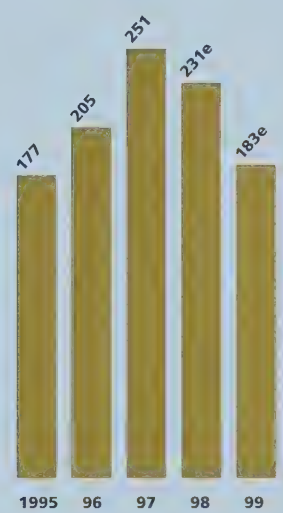
Due to exploration success in 1996 and increased ore reserves the company approved a major expansion project at Andacollo in 1997. The project was completed in late November and included the construction of a third tertiary crusher and the addition of a second train of carbon adsorption columns. The new expansion will increase crusher throughput capacity to 18,200 tonnes (20,000 tons) per day or approximately 6.4 million tonnes (7.0 million tons) per year.

Completion of the expansion project will not only allow the Andacollo mine to increase the production rate but also reduce the unit processing costs through economies of scale and allow it to remain competitive during periods of low precious metals prices.

In 1998, the Andacollo mine will continue mining ores from the Tres Perlas, Tres Perlas West and Socorro deposits. In addition, with the recent completion of a strategic surface property acquisition a fourth, higher grade deposit, Churrumata, will be developed. Material movement in the mine will be increased by the addition of a new loader, drill rig and three 100 ton class haul trucks. The new mining equipment in addition to the third tertiary crushing circuit will facilitate the extra stripping required in 1998 to mine 18,200 tonnes (20,000 tons) of ore per day or approximately 6.4 million tonnes (7.0 million tons) in a year.



Gold Production (ounces)



Cash Operating Costs

(US$ per ounce)
e = estimate



Above, construction phase of the tertiary crusher, completed in 1997.
Left, coarse ore bin and primary crusher.

Finance / Hedging

In addition, in 1998 the third and final phase of the leach pad at Andacollo will be constructed. The final phase of the leach pad will allow the mine and process plant to operate at the increased capacity up until the year 2002 with little additional capital.

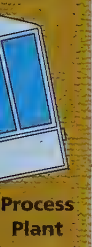
Gold production is expected to increase to 115,000 ounces in 1998. However, the impact of higher grade ores will not be fully experienced until the years 1999 and 2000 when production will rise to 160,000 to 170,000 ounces.

In February of 1997, Dayton completed a US$69 million convertible debenture financing. The convertible debenture carries a 7% coupon and has a five year term. Dayton has the option of repaying the debenture in shares at maturity in April 2002.

During 1997 Dayton realized a gold price of US$402 per ounce for its production due to a hedge position consisting of puts. Dayton will continue to be well hedged for 1998 and 1999 with 21,000 ounces of puts at US$380 per ounce and 136,000 ounces of puts at US$340 per ounce.

At left, the complete and operational tertiary crusher, completed in November 1997. Above, the expansion of the process plant completed in October 1997.

Fig 1. Plan view of Andacollo Property



During 1997 Dayton continued to focus its exploration efforts on the Andacollo property while pursuing opportunities elsewhere.

Richard J. Hall

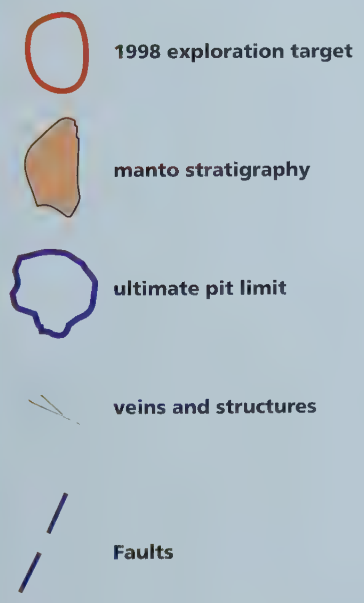
Senior Vice President, Corporate Development and Exploration

ANDACOLLO GEOLOGY

The Andacollo district occurs in Chile's Coastal Cordillera within a Cretaceous in age volcano-plutonic arc. The Quebrada Marquesa formation is the main mineralization host and consists of volcanic flows with pyroclastic and sedimentary units. Within this formation gold mineralization occurs in dacite and andesite units, locally referred to as mantos; within andesite units that occur above, below and locally between the mantos and within a contact breccia zone between diorite intrusive and the manto units. Four separate and distinct manto units have been distinguished in the district. They are, from east to west, Tres Perlas, Churrumata, Socorro and Toro.

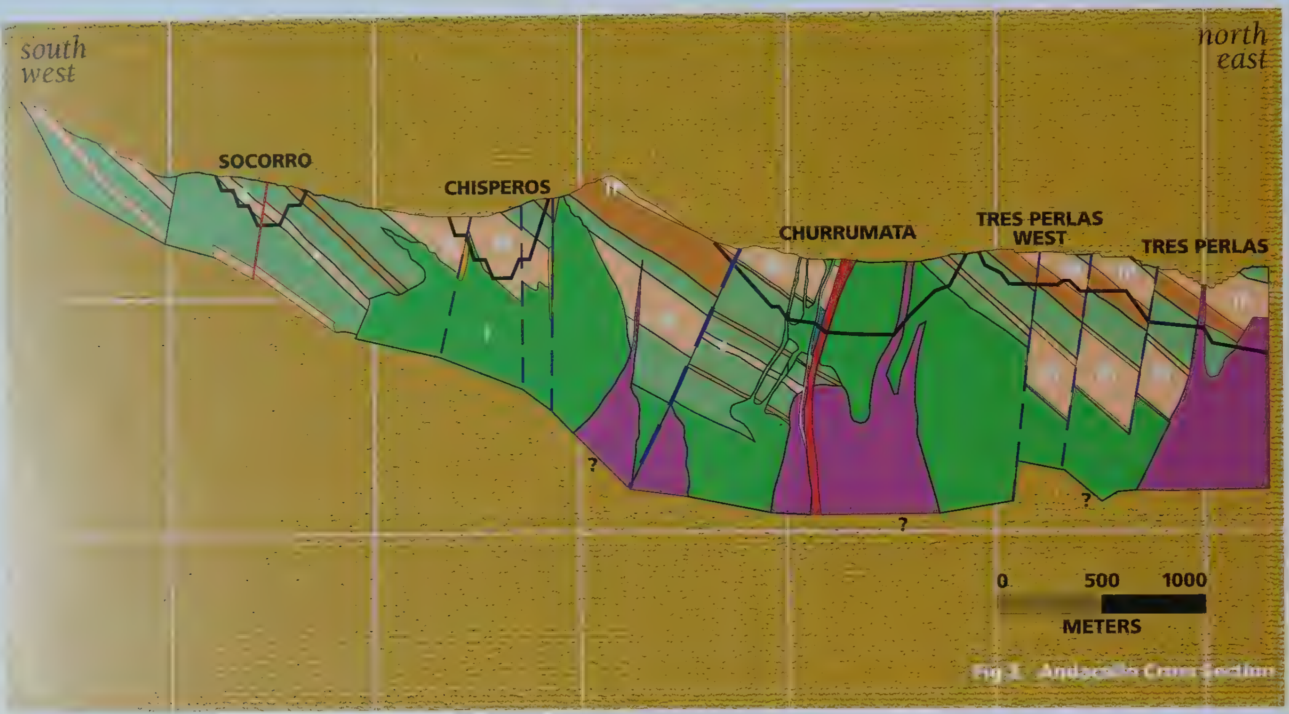
All have a north-south strike and easterly dip that varies from between 15 and 40 degrees. Locally overlying both the dacite and andesite units is a rhyolite unit that is the source of a minor amount of gold mineralization. Gold mineralization has been known for many years in the manto units. In 1996 gold mineralization was discovered within a contact igneous breccia zone between diorite intrusive and the manto units. This igneous breccia zone locally contains high-grade gold values over thick intervals and creates additional exploration targets for Dayton at Andacollo.

Structurally, the Andacollo mine area is cut by several north-south trending faults and a series of younger northwest-trending vein and shear zones. The combinations of these structures and the permeability of the rock units play an important role in both the tenor and abundance of mineralization *(see figures 1 and 2)*.



ANDACOLLO EXPLORATION

During 1997 Dayton drilled 30,727 meters of drilling in 177 holes in the Andacollo property. This was a record amount of drilling for any one year at the project and included in-fill drilling on known reserves and resources; conversion of reserves classified as possible to proven or probable; extensional exploration away from known targets and exploration drilling. This work resulted in nearly maintaining the mineable reserves at Andacollo despite the use of a lower gold price, a lower gold recovery factor and the mining of 149,500 ounces of gold during 1997. Seventy-six percent of the meters drilled (23,488 m) was reverse circulation rotary and the remaining twenty-four percent (7,239 m) was core drilling. Total meters drilled on the property now amounts to approximately 162,000 meters in 1,382 holes. Nearly US$2.8 million was spent on exploration at Andacollo in 1997.

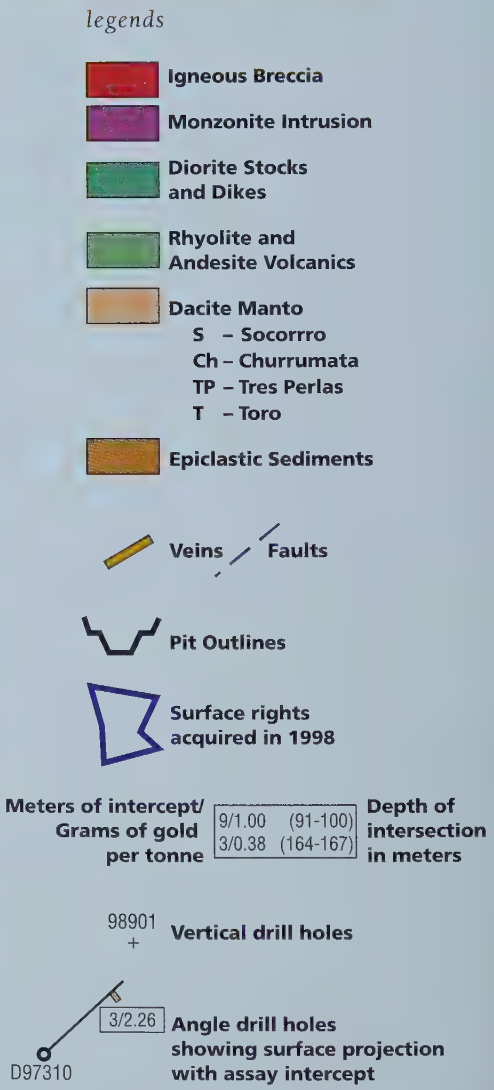


Approximately 11,750 meters of the 30,727 meters drilled were completed on the Churrumata deposit. This drilling resulted in extending the igneous breccia 200 meters north and the manto mineralization 80 meters further south than their 1996 limits.

Early in 1998 the surface rights on ground located north of the Churrumata deposit were acquired. Since the acquisition of this ground, 11 holes have been drilled into the area. Of these 11 holes, eight have encountered ore grade intercepts with the most encouraging being 27 meters grading 2.83 grams of gold per tonne. It is anticipated that this and future drilling in the area, will result in extending the currently designed Churrumata pit to the north *(see figure 3)*.

The Floridor area received approximately 5,550 meters of drilling during 1997 resulting in and successfully outlining a previously unidentified resource and reserve in the area. This discovery of 61,000 resource ounces represents a validation of the geologic model being used at Andacollo for the exploration of new areas. Additional exploration will be completed on Floridor during 1998 as well as on other targets with similar geologic characteristics.

Approximately 4,600 meters of drilling was completed on the Chisperos deposit during 1997. This work helped further define and expand the mineable reserves at the Chisperos deposit. The mineable reserves expanded from 18,000 ounces at the end of 1996 to 46,000 ounces at the end of 1997.




0
500
1000
METERS
94906
94904
94902
98316
D98903
97901
3/1.61
94903
98905
95901
D96904
97902
4/0.47 (91-95)
98302
98305
98316
9/1.00 (91-100)
3/0.38 (164-167)
98901
98306
98307
27/2.83(71-98)
98817
4/0.64 (31-35)
20/1.22 (59-79)
5/0.50 (101-106)
4/0.41 (109-113)
3/0.45 (124-127)
45/1.24 (148-193)
98316
18/7.84 (108-126)
5/1.85 (147-152)
14/1.91 (163-170)
98314
10/0.46(98-108)
9/0.56
16/3.37
3/0.66
5/2.18
6/2.33
98311
3/1.04
3/0.88
98310
6/0.85
97316
16/2.25
5/1.51 (6-11)
4/0.55 (48-52)
98312
12/1 15
4/0.43
98313
98309
5/1.10
22/1.12 (36-58)
7/0.88 (87-94)
3/0.86 (122-125)
19/1.96 (147-166)
9/0.96(100-109)
6/0.74
90309
97315
97332
13/1.94
4/0.61 (6-10)
95310
D97323
8/0.67
9/0 02
3/0 59
7.7/0.83
97331
6/1.05
3/0 70
8/1.56
D97334
3 3/0.44(74.75-78)
18/1.43
90305
15/6.13
RA-422
20/1.07
4/0.33
D97329
10/1 19
90339
97333
8/0 45
3.5/0.73
4/0 82
90306
90316
90302
97335
3/2 26
RA-400
16/1.57 (35-51)
7/0.73 (67-74)
8/5.53 (115-123)
D97310
RA-401
RA-401
11.5/2.37
35327
RA-421
90313
90303
6/0.61
7/1.00
2/9.53
2/0.55
11/1.33
RA-420
98303
90312
RAD97307
96332
97337
97309
8/0.82 (7-15)
3/2.30 (34-37)
8/1.81 (43-51)
11/0.75 (128-139)
RA-408
90304
4/0.95
97318
20/0.55
7/0.66
7/0 66
97355
96321
4/0.67
90333
90341
96304
RAD96309


CHILE LIMITADA

Five holes were drilled to depths in excess of 500 meters during 1997. While all of these deep holes returned ore grade intercepts, the most encouraging results were received from a hole drilled at the north end of the Tres Perlas West deposit. Assay results from this hole resulted in the development of two thick intervals of gold mineralization. The uppermost interval is 101 meters grading 0.66 grams of gold per tonne and the lower is 87 meters grading 1.81 grams of gold. The first intercept is located approximately 40 meters below the currently projected bottom of the Tres Perlas West pit and the second is approximately 75 meters below the first. These two intervals correspond to the down-dip projections of the Churrumata and Socorro manto stratigraphy beneath the Tres Perlas West deposit and represent a new exploration target for follow-up drilling.

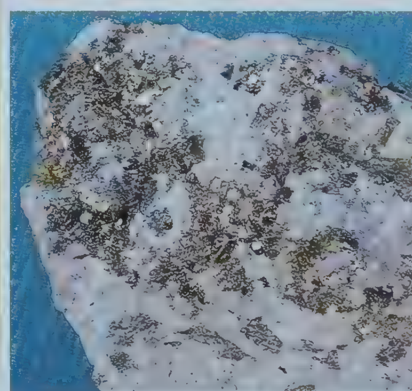
During 1998 Dayton will continue with an aggressive exploration program at Andacollo focusing on the down-dip extension of the Tres Perlas pit, the area north of the Churrumata pit, along the Chisperos-Floridor corridor, the area to the west of the Socorro deposit, and continue to evaluate the deep potential of Andacollo from both an economic and geologic perspective. Dayton has budgeted approximately US$1.8 million for exploration at Andacollo during 1998 *(see figure 1)*.

1997 General Exploration

GENERAL EXPLORATION

In addition to the work at Andacollo during 1997, Dayton drilled 2,800 meters in the Lolita property, located 150 kilometers from Copiapo. Despite encountering ore grade mineralization in the drilling, sufficient resources were not outlined to meet Dayton's target objectives for development. In addition to this exploration work, Dayton evaluated numerous other exploration opportunities in the Americas.

During 1998, Dayton will increase its exploration commitment outside the Andacollo property and become more proactive in its assessment of opportunities within the Americas. It will attempt to capitalize on its strong cash position with an exploration focus on gold deposits where either a resource currently exists or is strongly indicated by surface sampling, a permissive geologic trend, or proximity to known deposits. The target must be capable of developing into 500,000 mineable ounces.



Left, Andacollo exploration.

1997 Reserves

The 1997 resource and reserve estimate was completed by Mine Reserve Associates of Denver, Colorado.

The following is a comparison of the 1997 resources and reserves with those reported in 1996.

RESOURCES:

Year	Tonnes 000's	Grade (gpt)	Ounces Gold
31 Dec 1997	**132,905**	**0.67**	**2,874,000**
31 Dec 1996	**130,988**	**0.70**	**2,954,000**

RESERVES:

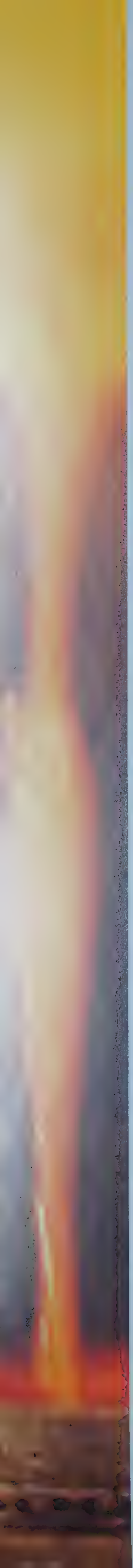
Year	Gold Price	Tonnes 000's	Grade (gpt)	Ounces Gold	Stripping Ratio
31 Dec 1997	**US$350**	**45,415**	**0.87**	**1,265,000**	**1.87**
31 Dec 1996	**US$400**	**54,676**	**0.86**	**1,505,000**	**1.65**

The resources are calculated at a cutoff grade of 0.3 grams per tonne of gold (gpt).

sensitivity of gold reserves to changes in price of gold

The reduction in reserves are due in part to the use of a lower gold price, lower gold recovery factors and the mining of 149,500 ounces of gold in 1997 from the Tres Perlas, Tres Perlas West, and the Socorro deposits.

In addition to the reserves calculated using a gold price of US$350 per ounce, sensitivities to the change in the reserves due to changes in the gold price were also examined. These sensitivities are shown on the adjacent bar graph.



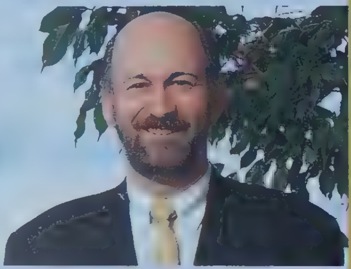
Dayton *Management*

ROLAND L. HORST Chairman and Chief Executive Officer

Mr. Horst has over 20 years experience in the mining industry as a geologist and specialist in mine financing and mergers and acquisitions. Mr. Horst's previous experience includes being President and Chief Executive Officer of Minorca Resources Inc, Director of Corporate Finance, Mining Group for Nesbitt Thomson Inc and Richardson

REX L. OUTZEN President and Chief Operating Officer

Mr. Outzen has over 21 years of experience in the mining industry. With Dayton Mining, Mr. Outzen was responsible for the construction and development of the Andacollo Gold Mine. Prior to joining Dayton, Mr. Outzen was Vice President and General Manager of Operations for MinVen Gold Corporation, where he was responsible for the develop-



R.J. (DON) MACDONALD Senior Vice President, Finance and Chief Financial Officer

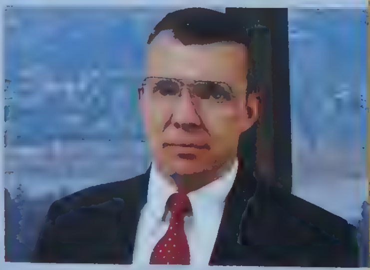
Mr. MacDonald has over 17 years experience in the mining industry. He is responsible for Dayton's financial and accounting activities, and was integrally involved in the debt and equity financing of the Andacollo Gold Mine. He has been involved in the financing and financial aspects of the acquisition, development and operation of six

RICHARD J. HALL Senior Vice President, Corporate Development and Exploration

Mr. Hall has more than 22 years experience in the mining industry. Since joining Dayton Mining in 1995, Mr. Hall has been primarily involved in resource development activities, which involves world wide merger, acquisition and exploration activities. Prior to joining Dayton, Mr. Hall held several positions with Pegasus Gold Corporation,

DIANE R. THOMAS Vice President, Corporate Development and Investor Relations

Ms. Thomas has more than 14 years experience and education in the field of natural resources. Ms. Thomas is responsible for merger and acquisition analysis, as well as maintaining relationships and communications between Dayton and its shareholders, the investing public, the financial community and the media. Prior to joining Dayton



FRED EARNEST Andacollo General Manager

Mr. Earnest has over 12 years experience in the mining industry. Prior to joining Dayton Mining, Mr. Earnest held the positions of Engineering Manager with Rayrock Mines, Manager of Technical Services for Minera Rayrock, Engineering Manager for

Greenshields, mining account manager with Bank of Montreal, and exploration geologist with Inco Limited. Mr. Horst holds MBA and Law degrees from the University of Western Ontario, a Master of Science Degree in Geology from Laurentian University and a Bachelor of Science Degree in Geology from McGill University.

ment and operation of the Gilt Edge Mine in western South Dakota. As General Manager of Nevada Operations with Tenneco Minerals Company, Mr. Outzen was responsible for overseeing the development and operation of the Borealis, Manhattan Gold and McCoy operations. Mr. Outzen held the position of Leach Plant Foreman, Mill Shift Foreman and Acting Chief Metallurgist at Asarco Incorporated's Silver Bell Operation. Mr. Outzen holds a Bachelor of Science Degree in Metallurgical Engineering from the University of Utah.

gold mines. Prior to joining Dayton, Mr. MacDonald was Vice President of Finance for Granges, Inc. and worked for Coopers & Lybrand in London and Vancouver. Mr. MacDonald has successfully completed over $500 million of mining financing including project financings, gold loans, gold bonds, Eurobonds, convertible debentures, flow through shares, rights offerings, special warrants and unit offerings. Mr. MacDonald is a Chartered Accountant with Bachelors and Masters Degrees in Engineering from Oxford University.

including General Manager of International Project Development, Managing Director of Pegasus Gold Pacific, Inc., General Manager of Development, Zapopan and Manager of Business Development. As Manager of Special Projects for Lacana Gold, Inc., Mr. Hall was instrumental in the development and permitting of the Gilt Edge Gold Mine in South Dakota. Mr. Hall holds a Masters of Science Degree in Geology and an MBA from Eastern Washington University.

in 1996, Ms. Thomas was Vice President of Corporate Development and Investor Relations with a North American gold exploration company. Ms. Thomas also held the position of senior mining analyst with United Services World Gold Fund, a US$350 million mutual fund. Ms. Thomas holds a Masters Degree in Energy and Mineral Resources and a Ph.D. in Mineral Economics from the University of Texas at Austin.

Barrick S.A., Mine Manager for Montana Talc Company and Mining Engineer with Behre Dolbear and Pincock Allen & Holt. Mr. Earnest holds a Bachelor of Science Degree in Mining Engineering from the Colorado School of Mines.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(ALL AMOUNTS IN CANADIAN DOLLARS UNLESS OTHERWISE STATED)

This discussion and analysis of the results of operations and financial condition of the Company should be read in conjunction with the consolidated financial statements and the related notes which have been prepared in accordance with accounting principles generally accepted in Canada. Differences from United States generally accepted accounting principles are described in the consolidated financial statements.

Dayton's only current mining project with identified mineable ore reserves is the 100% owned Andacollo Gold Mine in central Chile. Commercial operations began at the Andacollo Gold Mine on January 1, 1996. Approximately 91,347 ounces of gold were produced in 1997, at a cash operating cost of US$251 per ounce. In 1997 the Company realized an average sale price of US$402 per ounce of gold.

GENERAL

Construction of a 14,000 tons (12,700 tonnes) per day heap leach gold facility at its Andacollo Gold Mine commenced in the fall of 1994 and was completed in September 1995, with commercial production commencing in January 1996. The construction was financed by a $32,000,000 equity offering and a US$50 million bank credit facility ("Credit Facility"). In 1996, the mine produced 87,650 ounces of gold at a cash cost of US$205 per ounce. In 1996, the mine also achieved "Full Completion" under the terms of its Credit Facility, which included passing a series of operating, performance and economic tests.

In 1997 the Company undertook a series of modifications to the plant facility. A third tertiary crusher was installed by the end of the year which increased crusher capacity to 20,000 tons (18,100 tonnes) per day. Also the solution process capacity was doubled by the construction of a duplicate train of carbon elution columns. In February 1997 the Company raised US$69 million (US$66.4 million net of commission and expenses) in a convertible debenture offering.

RESULTS OF OPERATIONS

1997 compared with 1996

The net loss for the year increased from $3,409,000 or $0.10 per share in 1996 to $27,619,000 or $0.78 per share in 1997. The increase in loss was due primarily to a $24,000,000 writedown in 1997 of the Andacollo Mine and a $976,000 writedown of marketable securities. Revenues from gold sales and related gold hedging activities were $49,553,000 in 1997 compared to $45,996,000 in 1996. Operating cost of sales was $31,685,000 in 1997 compared to $24,545,000 in 1996. Depreciation, depletion, and amortization was $10,555,000 in 1997 compared to $11,104,000 in 1996. This resulted in a net income from gold mining activities of $7,313,000 in 1997 compared to $10,347,000 in 1996. The increase in interest revenue of $3,961,000 and the increase in interest expense of $1,045,000 were due primarily to the convertible debentures. The $431,000 decrease in amortization of deferred financing costs and $328,000 decrease in general and administrative expenses were offset by a $213,000 increase in exploration expense.

1996 compared with 1995

The net loss for the year decreased from $3,526,000 or $0.12 per share in 1995 to $3,409,000 or $0.10 per share in 1996. Revenues from gold sales were $45,996,000 in 1996, operating cost of sales was $24,545,000 and depreciation, depletion, and amortization was $11,104,000 in 1996 with no equivalent in 1995. This resulted in a net income from gold mining activities of $10,347,000 which was offset by an increase in expensed interest and financing charges of $8,662,000 and an increase in general and administrative expenses of $2,496,000 due to increased personnel and mine related administrative costs. Interest income increased by $602,000 as a result of higher average cash balances from the proceeds of the special warrants financing completed in January 1996.

1995 compared with 1994

The net loss for the year increased from $1,476,000 or $0.06 per share in 1994 to $3,526,000 or $0.12 per share in 1995. The increased loss resulted from a $650,000 increase in administrative costs, largely due to salaries of new staff hired in 1994 and 1995, a $449,000 increase in exploration expenses mainly in Africa, a change in foreign exchange from a gain in 1994 of $409,000 to a loss in 1995 of $195,000, and a reduction in interest income of $305,000 resulting from lower cash balances and interest rates.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

For 1997, cash provided by operations was $10.5 million compared with cash provided by operations of $9.8 million in 1996. The non-cash working capital increase of $52.8 million consisted primarily of a $57.3 million increase in the current portion of the bank loan and capital lease compared to a $0.7 million increase in 1996.

Cash provided by financing activities in 1997 was $30.0 million compared with $16.1 million in 1996. Net proceeds from a convertible debenture offering in February 1997 were $90.8 million. Share capital issued in 1997 was $0.2 million compared to $4.0 million from stock options, $0.7 million from warrants, and $15.3 million from special warrants in 1996. Bank loan repayments in 1997 were $4.8 million compared with bank loan payments of $4.8 million in 1996.

Cash used for investing activities increased from $14.2 million in 1996 to $20.2 million in 1997 due to an expansion of crushing capacity and other throughput enhancements at the Andacollo Mine.

The profitability and liquidity of the Company is most significantly influenced by the price it obtains for the sale of gold, gold production levels and operating costs. The Company has hedged the gold price risk by acquiring puts that give the Company the right to deliver gold, at monthly intervals, at a fixed price per ounce if the then current price of gold is below that fixed level. At December 31, 1997 there were 73,500 ounces of puts outstanding at US$380 per ounce.

In the first quarter of 1998 the Company restructured its hedging program. The new program consists of a total of 21,000 ounces of puts at US$380 per ounce and 135,750 ounces of puts at US$340 per ounce over 1998 and 1999. This gold hedge program assures, during the next two years of operation, a minimum price of US$340 per ounce for approximately 50% of the Company's anticipated gold production. The Company also has written calls on a total of 29,400 ounces of gold at US$434 per ounce over 1998 and 1999. The Company anticipates using further hedging strategies in future years to manage its exposure to price risk. In 1997 the Company realized an average price of US$402 per ounce.

Capital expenditures of US$5.5 million (excluding leased mining equipment) are planned in 1998, and relate largely to additional leachpad construction at the Andacollo Gold Mine. These expenditures are expected to be funded from cashflow from operations and available cash. In addition, the Company plans to spend approximately US$3 million on exploration and also plans to expend funds on corporate development activities in 1998.

At December 31, 1997 US$42.9 million was outstanding under the Credit Facility. In January 1998 the loan was paid down, on schedule, to US$28.6 million. At current gold prices and the current loan life, the Andacollo Gold Mine is not in compliance with a forward-looking economic test under the Credit Facility. The Company is negotiating with its banks on modifications to the loan agreement to bring the project back into compliance. The current status has no effect on the Company's balance sheet or financial results.

The Company is committed to constructing and operating its projects to minimize the effects of its operations on the environment. The design criteria and construction plan for the Andacollo Gold Mine generally reflect U.S. standards and practice for environmental protection and exceed the requirements of current environmental laws and regulations in Chile. The Company is not aware of any proposed change in such laws and regulations which would require a change in the manner in which it operates the mine. The Company has developed a closure plan for the mine and is accruing for this purpose at the rate of US$0.02 for each ton of ore processed.

INFLATION AND CHANGING PRICES

The Andacollo Gold Mine commenced commercial production in January 1996 and until then was not directly affected operationally by trends with relation to the price of gold or inflation costs. The price of gold is unpredictable and affected by many factors beyond the control of the Company. The Andacollo Gold Mine is a relatively low cost gold producer and is less sensitive to changes in the price of gold. The Company has entered into gold option contracts to assure minimum revenues of US$346 per ounce over approximately 157,000 ounces of future production.

The Andacollo Gold Mine is located in Chile which is presently considered a desirable location for gold mining. However, operating costs will be affected by local inflation rates, which have been declining steadily in recent years, and by the Chilean exchange rate. No satisfactory current market exists for long-term hedging of Chilean currency, but in view of the relatively low anticipated operating cost per ounce of the Andacollo Gold Mine, in relation to the hedged gold price of US$340 per ounce, the Company considers continuance of the strengthening of Chilean currencies unlikely to have a material effect on the Company's liquidity.

OUTLOOK

Construction of the heap leach gold extraction facility at Andacollo was completed in 1995 and commercial production began in January 1996. In 1996, ore was mined only from the Tres Perlas and Tres Perlas West pits. In 1997 mining also commenced at the higher grade Socorro pit. Due to access problems, primarily related to old underground workings, progress at Socorro was slow and more ore than expected had to be mined from the lower grade Tres Perlas West pit. This negatively affected gold production in 1997 and is expected to affect production in the first half of 1998. In 1998 mining will commence at the Churrumata pit, also a higher grade pit, but again due to old mine workings the full benefit of this is not expected to be received until 1999. Gold production in 1998 is expected to be approximately 115,000 ounces at a cash cost of approximately US$230 per ounce.

In February 1997 the Company raised proceeds of US$69 million (US$66.4 million net of commission and expenses) by issuing convertible debentures. Each US$1,000 convertible debenture will be convertible into approximately 157 common shares of the Company, subject to certain anti-dilutive provisions. The Company intends to use these proceeds for the repayment of the loan unless other opportunities arise for using these funds on mining projects.

The Company will continue its world-wide program of exploration and corporate development activities, and has allocated significant funds for these purposes in 1998.

Management's Responsibility for Financial Reporting

TO THE SHAREHOLDERS OF DAYTON MINING CORPORATION

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and within the framework of the summary of significant accounting policies in these consolidated financial statements. Management is responsible for all information in the annual report. All financial and operating data in the annual report is consistent, where appropriate, with that contained in the consolidated financial statements.

A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through activities of its Audit Committee composed of three directors, none of whom are members of management. This Committee meets with management to assure that it is performing its responsibility to maintain financial controls and systems and to approve the annual consolidated financial statements of the Company. The Audit Committee also meets with the independent auditors to discuss the results of their audit, their review of internal accounting controls and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited on behalf of the shareholders by the Company's independent auditors Coopers & Lybrand, in accordance with generally accepted auditing standards. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

R.J. MacDonald
Senior Vice President, Finance and Chief Financial Officer

Auditors' Report

TO THE SHAREHOLDERS OF DAYTON MINING CORPORATION

We have audited the consolidated balance sheets of Dayton Mining Corporation as at December 31, 1997 and 1996 and the consolidated statements of loss, deficit and cash flows for each of the years in the three year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1997 in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants

Vancouver, B.C.
March 9, 1998
except note 18, which is as of April 22, 1998

Consolidated Balance Sheets

in thousands of Canadian dollars

AT DECEMBER 31	1997 $	1996 $
CURRENT ASSETS		
Cash and short-term investments (note 7)	**95,237**	22,114
Investments in marketable securities (note 3)	**839**	–
Bullion settlements receivable	**2,950**	2,021
Accounts receivable	**3,841**	1,002
Inventories (note 4)	**9,521**	7,797
Total current assets	**112,388**	32,934
PROPERTY, PLANT AND EQUIPMENT (note 5)	**105,729**	121,643
OTHER ASSETS (note 6)	**4,826**	3,497
	222,943	158,074
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**9,812**	6,660
Bank loan – current portion (note 7)	**61,307**	4,897
Capital lease payable – current portion (note 8)	**3,596**	2,712
Convertible debentures – current portion (note 9)	**6,673**	–
Total current liabilities	**81,388**	14,269
LONG-TERM LIABILITIES		
Bank loan – long-term (note 7)	**–**	58,766
Capital lease payable (note 8)	**7,233**	7,071
Convertible debentures (note 9)	**19,605**	–
Other accrued liabilities	**1,540**	981
Total long-term liabilities	**28,378**	66,818
Total liabilities	**109,766**	81,087
Shareholders' Equity		
SHARE CAPITAL (note 9)	**90,714**	90,487
1997 – 40,857,000 common shares		
1996 – 40,808,000 common shares		
CONVERTIBLE DEBENTURES (note 9)	**67,904**	–
DEFICIT	**(45,441)**	(13,500)
Total shareholders' equity	**113,177**	76,987
	222,943	158,074

Approved by the Board of Directors:

Director

Director

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Loss

in thousands of Canadian dollars

FOR THE YEARS ENDED DECEMBER 31	1997 $	1996 $	1995 $
REVENUES			
Gold sales	**49,553**	45,996	–
COST OF SALES			
Operating cost of sales	**31,685**	24,545	–
Depreciation, depletion and amortization	**10,555**	11,104	–
Total cost of sales	**42,240**	35,649	–
	7,313	10,347	–
EXPENSES			
Amortization of deferred financing costs	**1,788**	2,219	–
Exploration	**813**	600	679
Foreign exchange	**(390)**	(52)	195
General and administrative expenses	**4,647**	4,975	2,479
Interest expense	**7,979**	6,934	491
Interest income	**(4,881)**	(920)	(318)
Writedown of property, plant and equipment (note 5)	**24,000**	–	–
Writedown of marketable securities	**976**	–	–
Total expenses	**34,932**	13,756	3,526
NET LOSS FOR THE YEAR	**(27,619)**	(3,409)	(3,526)
LOSS PER SHARE, including effect of accretion of equity component of convertible debentures	**$(0.78)**	$(0.10)	$(0.12)
Weighted average common shares outstanding (000's)	**40,854**	35,477	29,962

Consolidated Statements of Deficit

FOR THE YEARS ENDED DECEMBER 31	1997 $	1996 $	1995 $
DEFICIT – BEGINNING OF YEAR	**(13,500)**	(10,091)	(6,565)
Net loss for the year	**(27,619)**	(3,409)	(3,526)
Accretion of equity component of convertible debentures	**(4,322)**	–	–
DEFICIT – END OF YEAR	**(45,441)**	(13,500)	(10,091)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Cash Flow

in thousands of Canadian dollars

FOR THE YEARS ENDED DECEMBER 31	1997 $	1996 $	1995 $
OPERATING ACTIVITIES			
Net loss for the year	**(27,619)**	(3,409)	(3,526)
Adjustment to reconcile net loss to cash provided by operating activities:			
Depreciation, depletion and amortization	**10,555**	11,104	–
Amortization of deferred financing costs	**1,788**	2,219	–
Amortization of deferred foreign exchange	**711**	(92)	–
Amortization of other assets	**51**	24	44
Writedown of property, plant and equipment	**24,000**	–	–
Writedown of marketable securities	**976**	–	–
Cashflow from operations	**10,462**	9,846	(3,482)
Change in non-cash working capital (note 16)	**52,785**	(1,645)	12,752
Cash provided by operating activities	**63,247**	8,201	9,270
INVESTING ACTIVITIES			
Property, plant and equipment	**(18,641)**	(14,366)	(61,763)
Purchase of marketable securities	**(1,815)**	–	–
Other assets	**242**	148	(256)
Cash used for investing activities	**(20,214)**	(14,218)	(62,019)
FINANCING ACTIVITIES			
Convertible debentures	**90,847**	(18,526)	–
Share capital	**227**	38,520	1,155
Bank loan	**(61,240)**	(4,836)	23,067
Capital lease obligation	**(303)**	573	6,499
Construction costs financed	–	–	(2,130)
Other accrued liabilities	**559**	418	563
Cash provided by financing activities	**30,090**	16,149	29,154
NET INCREASE (DECREASE) IN CASH	**73,123**	10,132	(23,595)
CASH – BEGINNING OF YEAR	**22,114**	11,982	35,577
CASH – END OF YEAR	**95,237**	22,114	11,982
CASH – END OF YEAR CONSISTS OF:			
Cash and short-term investments	**72,758**	15,266	5,151
Restricted cash	**22,479**	6,848	6,831
CASH – END OF YEAR	**95,237**	22,114	11,982

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

DECEMBER 31

tables stated in thousands of Canadian dollars

1 *Nature of Operations*

The Company owns the Andacollo Gold Mine, an open pit, heap-leach mine in Chile. The mine commenced commercial production on January 1, 1996.

2 *Significant Accounting Policies*

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements are presented in accordance with generally accepted accounting principles applicable in Canada and have been reconciled to generally accepted accounting principles applicable in the United States as disclosed in note 17.

PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of the Company's wholly owned subsidiaries, 544459 B.C. Ltd., Dayton Mining (U.S.) Inc., DMC Cayman Inc., Andacollo Gold Inc., La Serena Inc., Dayton Chile Exploraciones Mineras Limitada and Compañía Minera Dayton.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and writedown and are depreciated using the unit of production method over proven and probable reserves. Revenue and operating costs in 1995 during the pre-production period were credited or charged, as appropriate, against property, plant and equipment costs.

Quarterly, reviews are undertaken to evaluate the carrying values of operating mines and development properties. If it is determined that the net recoverable amount is significantly less than the carrying value and the impairment in value is likely to be permanent, a write-down to the net recoverable amount is made by a charge to earnings.

All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no mineable orebody is discovered, previously capitalized costs are expensed in the period the property is abandoned. Expenditures for the development of new mines, to define further mineralization in existing orebodies, and to expand the capacity of operating mines, are capitalized and amortized on a units of production basis over recoverable ounces.

Costs of waste removal associated with current mining operations are expensed in the period incurred.

MARKETABLE SECURITIES

Marketable securities are carried at the lower of cost and market value.

INVENTORIES

Production inventories, comprising ore on the leach pads and gold in process, and mine operating supplies are valued at the lower of average cost and net realizable value.

DEFERRED CHARGES

Deferred charges represent financing and foreign exchange costs on the bank loan, and foreign exchange on the Andacollo Contingency Account. These costs are being amortized using the interest method whereby amortization is calculated using the loan balance outstanding over the expected term of the debt.

CONVERTIBLE DEBENTURES

Upon issuance, the convertible debenture has been classified into its equity and financial liability components. The financial liability is accreted by way of a charge to earnings and interest payments are applied against the accrued financial liability. Accretion of the equity instrument is recorded as a direct charge to retained earnings.

REVENUE RECOGNITION

Sales of precious metals are recorded at the estimated net realizable value when the metals are available for delivery.

FINANCIAL INSTRUMENTS

The carrying amounts for cash and short-term investments, accounts receivable and accounts payable on the balance sheet approximate fair value because of the limited term of these instruments. Fair value estimates are made at the balance sheet date, based on relevant market information and information about financial instruments. These estimates are subjective in nature and

involve uncertainties in significant matters of judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The fair value of investments and long-term debt are disclosed in notes 3 and 7 respectively.

RECLAMATION COSTS

Reclamation costs and related accrued liabilities, which are estimated based on the Company's interpretation of current environmental and regulatory requirements, are accrued and expensed principally by the units of production method based on estimated proven and probable reserves. These costs are included in general and administrative expenses.

HEDGING TRANSACTIONS

To manage its exposure to fluctuations in the market price of gold and to establish minimum prices for certain of its future production, the Company enters into gold hedging contracts. Gains and losses on these contracts are not recognized in income until reflected in sales revenue when the related production is delivered.

TRANSLATION OF FOREIGN CURRENCY

The accounts of foreign operations are translated into Canadian dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the balance sheet date.
- other assets and liabilities at applicable historical exchange rates.
- revenues and expenses at the average rate of exchange for the year except for non-monetary expenses which are at the rates used for the translation of the related assets.
- exchange translation gains and losses are treated as a component of the related transaction and included in earnings or capitalized accordingly.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

Cash includes cash and short-term investments maturing within 90 days of the original date of acquisition. In order to limit its exposure, the Company diversifies its selection of counterparties for the placement of short-term investments. The Company places its cash and short-term investments with major chartered banks or in high quality financial instruments. The Company believes that no concentration of credit risk exists with respect to cash and short-term investments.

…ments in Marketable Securities

	1997 $	1996 $
Investments in publicly traded shares Cost $1,815 (1996: nil)	**839**	–

…ntories

	1997 $	1996 $
Production inventory	**7,424**	5,202
Supplies inventory	**2,097**	2,595
	9,521	7,797

5 *Property, Plant and Equipment*

				1997 $	1996 $
	Cost	Writedown	Accumulated Depreciation	Net	Net
Mining properties and deferred costs	**43,524**	**(24,000)**	**(6,218)**	**13,306**	36,209
Plant and equipment	**107,864**	**–**	**(15,441)**	**92,423**	85,434
	151,388	**(24,000)**	**(21,659)**	**105,729**	121,643

Included in mining properties and deferred costs is US$1,250,000 for advance minimum royalty payments, made prior to commencement of commercial production, which is being amortized over the life of the project on a unit of production basis (note 15).

6 *Other Assets*

				1997	1996
				$	$
		Cost	Accumulated Amortization	Net	Net
Deferred charges:	Financing costs	**4,327**	**(2,967)**	**1,360**	3,147
	Foreign exchange	**3,956**	**(666)**	**3,290**	179
Other assets		**442**	**(266)**	**176**	171
		8,725	**(3,899)**	**4,826**	3,497

7 *Bank Loan and Restricted Cash*

		1997		1996	
		US$	**Cdn$**	US$	Cdn$
Restricted cash:	Andacollo Contingency Account	**5,000**	**7,153**	5,000	6,848
	Principal Escrow Account	**10,714**	**15,326**	–	–
		15,714	**22,479**	5,000	6,848
Bank loan		**42,857**	**61,307**	46,429	63,663

A) BANK LOAN

In October 1994 the Company entered into a US$50,000,000 bank credit facility to finance the construction of the Andacollo Gold Mine. The credit facility is for a maximum of approximately five years and the loan principal was originally repayable in fourteen quarterly payments of approximately US$3,571,000 beginning in October 1996. During 1997 the lenders agreed to a deferral of three loan repayments due during the year. The Company made the scheduled repayment in January 1997 and the next repayment was scheduled for January 1998 with quarterly repayments thereafter. In addition to the minimum required repayments, on each payment date the Company is required to prepay a portion of the principal outstanding based on a percentage of excess cash flow, as defined, from the Andacollo Gold Project in the preceding six month period. Each prepayment will be applied against the then final scheduled quarterly payment.

Interest is payable at the London Interbank Offer Rate ("LIBOR") plus 2.375% (1996: 2.375%). The assets of Compañía Minera Dayton have been pledged as collateral for amounts borrowed under the credit facility. Under the credit facility the Company must maintain certain financial ratios and achieve certain operating results on an ongoing basis.

All indebtedness of the Company, excluding the convertible debentures, is at variable based lending rates and rates on these debt facilities are comparable to those which would have been commercially available to the Company as of the year end date. Accordingly, the debt at December 31, 1997 is stated at amounts that approximate fair value.

During 1997, the Company issued US$69,000,000 of convertible debentures (note 9). The stated use of proceeds included repayment of the Company's bank loan. Accordingly, the entire loan is classified in current liabilities.

B) ANDACOLLO CONTINGENCY ACCOUNT

The "Andacollo Contingency Account" of US$5,000,000 is held to satisfy the minimum principal repayments due under the terms of the bank loan. These funds will be available to the Company on an unrestricted basis if certain debt reserve requirements have been met or the loan is repaid. The funds are being invested in money market instruments and the interest income earned is received by the Company on a quarterly basis.

C) PRINCIPAL ESCROW ACCOUNT

In March 1997, agreement was reached with the Company's banks to defer the three principal payments remaining in 1997 to January 1998. As part of the agreement the Company placed US$10,714,000 into a restricted account to satisfy this principal payment due in January 1998. The required principal payment was made as scheduled on January 20, 1998 and this restriction was lifted.

8 *Capital Lease*

The Company has received mining equipment whose purchase was financed by five year leases. These leases bear interest at rates ranging from LIBOR plus 3.5% to LIBOR plus 4% (1996: LIBOR plus 4%), with quarterly payments. At the end of the five years, the equipment will automatically be owned by the Company. Future minimum annual lease payments, net of interest, are:

	$
1998	3,596
1999	3,596
2000	2,064
2001	1,189
2002	384
	10,829

9 *Share Capital*

A) AUTHORIZED

Authorized share capital of the Company consists of 1,000,000,000 (1996: 1,000,000,000) common shares without par value.

B) ISSUED AND ALLOTTED

	Number of shares	$
Issued at December 31, 1995	30,462,128	51,968
Stock options exercised	1,117,151	3,923
Conversion of debentures	6,615,000	18,526
Exercise of warrants	110,000	770
Issue of special warrants,net of expenses	2,503,500	15,300
Issued at December 31, 1996	40,807,779	90,487
Stock options exercised	49,000	227
Issued at December 31, 1997	40,856,779	90,714

C) CONVERTIBLE DEBENTURES

			1997 $
	Liability Component	Equity Component	Total
Upon issuance	27,265	63,582	90,847
Accretion	1,768	4,322	6,090
Interest payments	(3,936)	–	(3,936)
Foreign exchange loss	1,181	–	1,181
December 31, 1997	26,278	67,904	94,182

In February, 1997, the Company issued US$69,000,000 of convertible unsecured subordinated debentures ("the Debentures") for net proceeds of $90,847,000. Each US$1,000 Debenture is convertible at the option of the holder into common shares of the Company at a conversion price of US$6.36 per common share, equivalent to 157.23 common shares per US$1,000 principal amount of Debenture, subject to certain anti-dilutive provisions. The Debentures bear interest at 7%, payable semiannually in US dollars, and mature April 1, 2002.

The Debentures are redeemable at the option of the Company at US$1,000 plus accrued and unpaid interest, provided that the weighted average trading price of the common shares on the Toronto Stock Exchange during 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given, exceeds 125% of the conversion price. Upon redemption or maturity of the Debentures, the Company may, at its option, elect to satisfy its obligation to pay principal or the amount due on redemption by issuing and delivering to each holder of Debentures that number of freely tradeable common shares obtained by dividing US$1,000 by 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five days preceding the redemption date.

D) OPTIONS

On March 26, 1997, the Company granted 729,000 stock options at an exercise price of $5.60 expiring on March 26, 2002. The banks which underwrote the bank credit facility were granted options to purchase 350,000 shares at a price of $4.55 per share for a five year term expiring May 20, 1999. To December 31, 1997, the banks had exercised 262,500 of these options.

At December 31, 1997 there were 3,065,550 (1996: 2,824,000) shares reserved for issue pursuant to the exercise of stock options by employees and directors of the Company. These options are exercisable at prices ranging from $4.05 to $8.25 (which reflect fair market value at the time the options were granted), with expiry dates ranging from March 24, 1999 to March 26, 2002. The average price of these outstanding options is $5.62 per share.

In March 1994, the Company granted options to employees and directors to purchase 355,000 common shares at a price of $4.90 per share, expiring March 24, 1999. The Company's compensation committee originally recommended that these options be granted in November 1993 at the then market price of $3.40 per share. These options were not granted at that time because of a concern that bank negotiations that were then underway may have led to material change, which subsequently proved to have been premature. The Company has agreed to provide compensation to the employees and directors for the difference between the $3.40 and $4.90 price per share, by way of a bonus, at the time the options are exercised. At December 31, 1997, there were 290,000 of these options outstanding (see also note 12).

10 *Hedging*

At December 31, 1997, the Company's gold hedging program consisted of the following:

	1998	1999
Put options (ounces)	73,500	–
Average price per ounce (US$)	$ 380	–
Call options (ounces)	21,910	7,460
Average price per ounce (US$)	$ 434	$ 434

The fair value of the Company's gold put options and gold call options amounts to US$6,270,000. This fair value represents the amount that the Company would have received on December 31, 1997 to settle these instruments prior to their expiry dates.

Subsequent to the end of the year, the Company revised its hedging program (refer to note 18).

The credit risk exposure related to the Company's gold hedging activities is limited to the unrealized gains on outstanding contracts based on current market prices. The counterparties to the gold hedging are also lenders to the Company and are large international credit-worthy institutions.

11 *Income Taxes*

The Company has certain resource related deductions and other losses which are available to be offset against future taxable income. The benefits of these deductions and losses are not reflected in these financial statements as there is no virtual certainty that the benefits will be realized. The Company has tax loss carryforwards and deductions available to be utilized in future years totalling $17 million in Canada and $63 million in Chile.

12 *Related Party Transactions*

Private corporations controlled by the former President of the Company (refer also to note 15):

- were paid an aggregate of $608,947 during the year ended December 31, 1997 (1996 – $596,591; 1995 – $610,900) for management fees.
- were paid US$200,000 during the year ended December 31, 1997 (1996 – US$200,000; 1995 – US$200,000) for advance minimum royalty payments due under the Andacollo royalty agreement (see note 15).
- were advanced US$1,286,000 during the year ended December 31, 1997 (1996 – nil; 1995 – nil) as part of the loan described in note 15.

Legal fees for the year ended December 31, 1997 of $212,781 (1996 – $153,495; 1995 – $32,439) were paid or payable to a legal firm in which a director of the Company is a senior partner.

13 *Segmented Information*

The Company's principal activity is the operation of the Andacollo Gold Mine located in Chile.

IDENTIFIABLE ASSETS	**1997 $**	1996 $
Canada	**94,512**	28,634
Chile	**128,431**	129,440
	222,943	158,074

REVENUES INCLUDING INTEREST INCOME

	1997	1996
	$	$
Canada	**3,991**	605
Chile	**50,443**	46,311
	54,434	46,916

EARNINGS

	1997	1996
	$	$
Canada	**(1,287)**	(3,623)
Chile	**(26,332)**	214
	(27,619)	(3,409)

14 *Loss Per Share*

Loss per share has been calculated based on the weighted average number of shares outstanding. Loss per share has been calculated by increasing the reported net loss by the amount of the increase in the carrying amount of the equity element of the convertible debentures.

15 *Commitments*

A) NET SMELTER ROYALTY

The Company's 100% interest in the Andacollo Gold Mine is subject to a 2% net smelter royalty payable to a private corporation controlled by the former President of the Company. The terms of the royalty call for minimum annual royalty payments of US$200,000 payable quarterly in arrears until an aggregate of US$5,000,000 in royalty payments has been made. To December 31, 1997 a total of US$1,650,000 had been paid, of which US$1,250,000 was paid before the commencement of commercial production and has been capitalized as mining property costs.

B) LOANS TO FORMER OFFICER

In November, 1997, the Company agreed to loan to corporations controlled by the former President of the Company a maximum aggregate of US$2,500,000, for which collateral has been provided by the assignment of the 2% net smelter royalty and a personal guarantee. To December 31, 1997, US$1,286,000 had been advanced. Interest on the loans is receivable quarterly at a rate of 7%, with the principal amount due November 10, 2000. The first interest payment is due April 1, 1998.

Subsequent to the year end, this loan was repaid (refer to note 18). Accordingly, it is classified as a current asset. The former President also agreed to take no further advances against this loan.

16 *Supplementary Information*

A) CHANGE IN NON-CASH WORKING CAPITAL

	1997	1996	1995
	$	$	$
Bullion settlements receivable	**(930)**	(105)	(1,919)
Other receivables	**(2,839)**	330	5,621
Inventories	**(1,724)**	(4,310)	(2,109)
Accounts payable	**984**	1,688	4,274
Bank loan – current portion	**56,410**	18	4,894
Capital lease – current portion	**884**	734	1,991
	52,785	(1,645)	12,752

As described in note 7, the bank loan has been reclassified as current as a result of the debenture financing.

B) INTEREST PAID DURING THE YEAR

1997	1996	1995
$	$	$
9,271	6,620	1,450

	CAN		US
S/C	90714	→	90714
Conv. deb.	67904	→	ø
Deficit	<454117>		<794292>
	(13177)		11285

17 *United States Accounting Principles*

The effect of the differences between Canadian GAAP and U.S. GAAP on the Company's net loss for the years ended December 31 are summarized below:

- Under Canadian GAAP, gains and losses on translation of long-term debt are deferred and amortized over the term of the debt. Under U.S. GAAP, these gains and losses are reflected in net earnings as they arise.
- Under U.S. GAAP, any amounts due from officers for stock options exercised are not included in shareholders' equity.
- Under U.S. GAAP, for any stock options with an exercise price that is less than the market price on the date of grant, the difference between the exercise price and the market price on the date of grant is recorded as compensation expense.
- Under U.S. GAAP, the convertible debentures would be classified entirely as a liability.
- Under U.S. GAAP, the reduction in the carrying value of property, plant and equipment is determined on a discounted basis.

The significant changes in the consolidated financial statements relative to U.S. GAAP were as follows:

	1997 **$**	1996 $	1995 $
Net loss, following Canadian GAAP	**(27,619)**	(3,409)	(3,526)
Increase in loss due to discounting, per U.S. GAAP	87 **(27,000)**	–	–
Foreign exchange gains (losses)	1 **(1,967)**	(247)	1,294
Interest expense on convertible debentures	45 **(4,279)**	–	–
Foreign exchange on convertible debentures	1 **(4,317)**	–	–
Compensation relating to stock options issued at less than market value	65 **98**	–	–
Loss, following U.S. GAAP	**(65,084)**	(3,656)	(2,232)
Weighted average number of common shares computed in accordance with U.S. GAAP (thousands of shares)	**42,071**	36,008	30,313
Loss per share, U.S. GAAP	$ **(1.55)**	$ (0.10)	$ (0.07)
Convertible debentures – liability, following Canadian GAAP	**26,278**	–	–
Interest expense on convertible debentures	**(1,768)**	–	–
Interest payments on convertible debentures	**3,936**	–	–
Issuance	**63,582**	–	–
Foreign exchange	**6,677**	–	–
Convertible debentures – liability, following U.S. GAAP	**98,705**	–	–
Convertible debentures – equity, following Canadian GAAP	**67,904**	–	–
Shown as liability under U.S. GAAP	44 **(63,582)** ✓	–	–
Accretion of equity component under Canadian GAAP – incl. in cum. N.I. rec's.	**(4,322)**	–	–
Convertible debentures – equity, following U.S. GAAP	**–**	–	–
Adjusted deficit, beginning of year following U.S. GAAP	**(14,345)**	(10,689)	(8,457)
Loss, following U.S. GAAP	**(65,084)**	(3,656)	(2,232)
Deficit, following U.S. GAAP	**(79,429)**	(14,345)	(10,689)

In accordance with the Financial Accounting Standards Board Statement No. 109 ("SFAS 109"), U.S. GAAP requires that income taxes be accounted for by the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement reporting and the tax bases of the assets and liabilities and are measured at the enacted tax rates that will be in effect when the differences are expected to reverse. Such differences principally arise from the timing of income and expense recognition for accounting and tax purposes. The application of SFAS 109 would have no material effect on the assets, liabilities or operations for the years presented in these consolidated financial statements as any deferred tax assets would be eliminated by the recording of a valuation allowance. The tax benefit of the Company's loss carry forwards at December 31, 1997 would be approximately $17 million (1996 – $10 million; 1995 – $7 million).

S/E rec. — 44 <63582>
18 < 845> – carryover from ~~1996~~ 1996
NI rec. items.

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